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## Industrial Development Board

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## Programme and Budget Committee

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Item 9 of the provisional agenda

# INDUSTRIAL DEVELOPMENT FUND AND OTHER VOLUNTARY CONTRIBUTIONS

Report by the Director-General

**Summary**

Reviews the current resource mobilization pattern of the Industrial Development Fund and describes the programming thrust for 1999 and 2000. Presents innovative modalities for resources mobilization to increase funds available for the implementation of priority programmes.

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## Introduction

1. The Industrial Development Fund is the central mechanism for extrabudgetary funding for UNIDO technical cooperation activities. Together with the trust fund mechanism it provides UNIDO with the main sources of funds that, in consultation with the respective donors, can be programmed to enable the Organization to deliver its key products to Member States. The limited resources available in the regular budget for technical cooperation underscore the significance of extrabudgetary financing. Sufficient resources are critical if the newly-focused UNIDO products are to become reality.

2. The present document should be considered in conjunction with the *Annual Report of UNIDO 1997* (IDB.19/10-PBC.14/10), chapter VI of which provides information on the mobilization of funds for UNIDO services. In addition, the programme performance for 1997 (IDB.19/10/Add.1-PBC.14/10/Add.1) provides in appendix C information on contributions to and approvals under the Industrial Development Fund, and in appendix D on trust fund approvals. An overview of approval distribution by source of funds covering the period 1993 to 1997 is provided in the figure at the end of the present document.

## I. PROGRAMMING THRUST, 1999-2000

3. For the next two years, priority will be given to financing programmes and projects developed within the packages of integrated UNIDO services:

- Industrial governance
- Industrial export capacity-building
- Industrial information networking
- International industrial partnerships
- Quality and certification for industrial competitiveness
- Cleaner industry and environment
- Efficient energy development
- Agro-related industries development
- Local industrial development
- Women's entrepreneurship development

4. In terms of geographical distribution, priority will be given to Africa and least developed countries (LDCs).

5. Under each product, the Secretariat has developed a clear concept and approach and established clear focal points and a critical mass of expertise within the Organization. This facilitates the identification by UNIDO, in consultation with a recipient country, of highest-priority products, and the subsequent development of an integrated package of activities to respond to the requirements. These integrated packages will normally incorporate parts of different products and require a team approach for their implementation. The product definition will also allow early but specific consultation with potential donors, both in the field and with their headquarters, with a view to ascertaining their interest and early cooperation. It is also expected to lead to the provision of funds by more donors for specified products and/or regions for subsequent programming by UNIDO.

6. The new product-based approach, featuring enhanced consultation with beneficiaries, government officials and other relevant parties, as well as with other United Nations agencies and donors and effective teamwork within the Organization, is expected to lead to higher quality proposals that are more responsive to real needs. Therefore, they will be presented as a set of projects within an overall management structure that is supported by a central project and managed with the client. Packages will often be large, requiring multi-donor funding. It is anticipated that in the larger programmes, components corresponding to their strengths will be carried out by other United Nations organizations as well as directly by donors. The approach is expected to lead to new forms of donor cooperation on the basis of agreed programmes developed by UNIDO.

7. The main source of funding for the central components of the new integrated packages should be the Industrial Development Fund (IDF). Such components will frequently deal with sensitive issues of a policy nature, and funding from—as well as execution by—a United Nations organization is often the most acceptable option. They will also be based on the new products in which UNIDO has—or soon will have—strong competitive advantage. IDF funding for core components is also essential for attracting financing from other sources, including the United Nations Development Programme (UNDP), third-party and self-financed trust funds, and bilateral sources.

## II. INNOVATIVE MODALITIES FOR FUNDS MOBILIZATION

8. The general-purpose convertible segment of IDF (the programmable "convertible pool") is essential for financing the development phase without excessive delay. Sufficient contributions to this component are therefore of the highest importance to enable UNIDO to respond rapidly to requests for the development of the integrated packages.

9. In the coming two years the Secretariat will pursue with donors the option to provide at least part of their contributions in the form of programmable or semi-programmable funds. This can be done by providing contributions to the convertible pool of IDF or by targeting specific products and/or countries but allowing UNIDO to actually select the project and approve it

against the contribution. The clearly-defined and focused products will facilitate targeting of contributions. In addition to facilitating more pro-active programme development in line with the Business Plan and a stronger position for mobilizing co-financing from a variety of sources, it will dramatically speed up the project cycle and decrease the cost both to UNIDO and donors. Also within this context Organisation for Economic Cooperation and Development (OECD) countries that have not contributed voluntary funds recently will be approached again.

10. The focused products will also facilitate the identification of and cooperation with ministries of donor countries responsible, for example, for environment, trade or economic affairs, as well as with the European Union. Moreover, cooperation with such multilateral funds as the Global Environment Fund and the Common Fund for Commodities concentrating on individual products is expected to lead to increased funding for UNIDO activities.

11. UNIDO is also actively strengthening its cooperation with the United Nations system, and specifically UNDP. In the framework of strengthened system-wide coordination, a staff member will be placed with the Development Group Office (DGO) in New York to increase UNIDO's involvement in system-wide joint programming activities, including the United Nations Development Assistance Framework (UNDAF) and initiatives arising from country strategy notes. Conceptual cooperation with UNDP is initially focusing on Africa.

12. When developing larger packages of activities at the country level, UNIDO will more actively approach the local embassies of major donors. This is expected to increase cooperation with donors and enhance access to bilateral funds, which are normally available for bilateral activities only. This will be done in close cooperation with the recipient Government, underlining the joint responsibility for mobilizing funds. Combined with the trend among several donors to increase delegation of authority to their field offices for allocating and approving bilateral funds, this approach may result in a major funding source for projects where UNIDO can demonstrate its strength and unique position.

13. UNIDO will also approach the United Nations Fund for International Partnerships and the United Nations Foundation (the "Turner Fund") in those areas expected to respond best to the criteria of that fund. Following the first approvals earlier in 1998, covering projects to a value of $22 million, the specialized agencies will be invited to submit proposals for the next round.

14. In addition to project funding, UNIDO will continue to mobilize additional resources "in kind" for the benefit of Member States. Following the signature of a 1996 agreement with the Italian organization *Seniores per il Sviluppo*, an agreement was signed in early 1998 with the Netherlands Management Cooperation Programme (a senior executives organization) and the Netherlands ministry responsible for environment activities. Under these agreements retired senior experts are made available without fees for short periods. While in the past it has proven difficult to utilize such resources in individual projects, it is expected that large programmes will make considerable use of these facilities and thus further agreements will be pursued. In all cases, such experts will be used only at the initiative of, and selected by, UNIDO.

15. New initiatives will be undertaken in relation to the private sector. Companies and other organizations may be invited to sponsor projects. Sponsorship may include trust fund financing or contributions in kind, either for the whole project or cost-shared with other sources. Initial efforts are being made to conclude such project agreements. For this type of funding it is also expected that components of larger integrated programmes will be more attractive than stand-alone projects.

## III. ACTION REQUIRED OF THE COMMITTEE

16. The Committee may wish to consider recommending to the Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the information contained in document IDB.20/4-PBC.14/2;

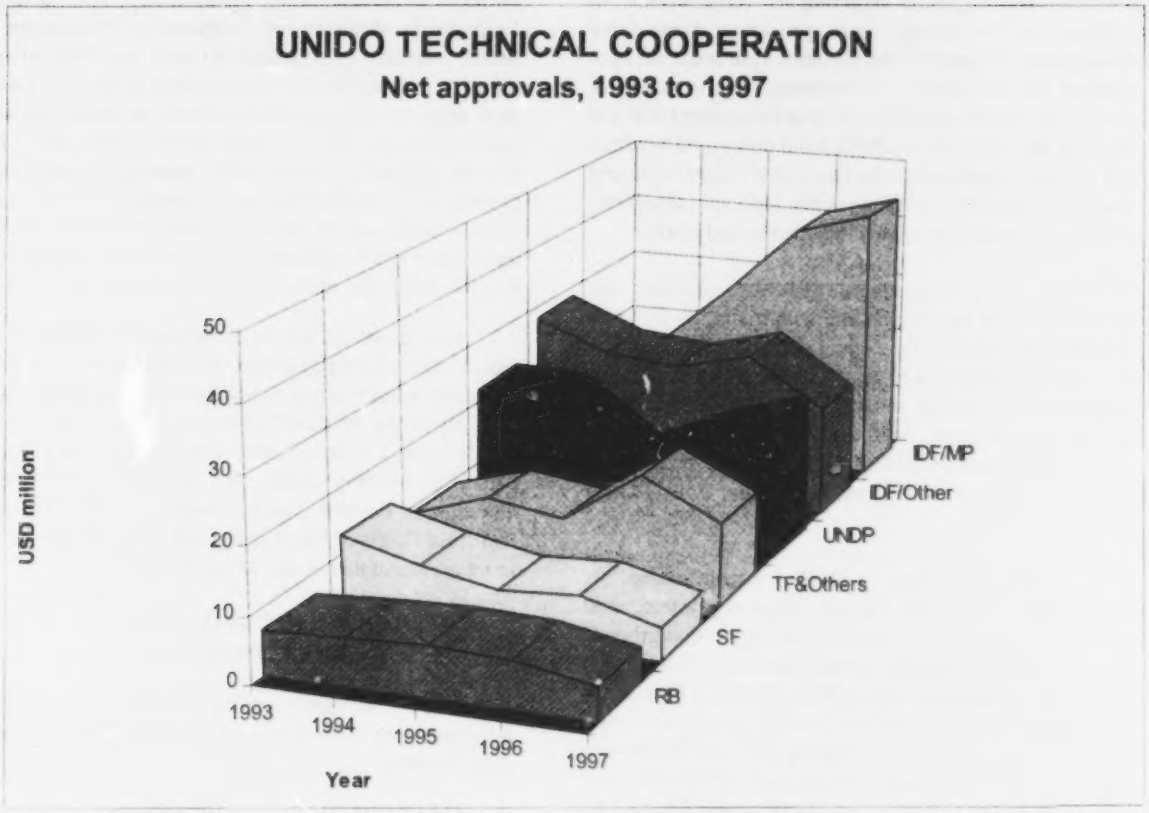
"(b) Decides to delegate to the Director-General the authority to approve projects for financing under the Industrial Development Fund in 1999 and 2000 in accordance with the information contained in chapter I of that document;

"(c) Encourages Member States and other donors to increase their voluntary contributions to UNIDO and specifically the Industrial Development Fund;

"(d) Also encourages donors to consider contributing programmable funds, specifically to enable UNIDO to implement the new products referred to in chapter II of document IDB.20/4-PBC.14/2;

"(e) Further encourages Member States to enable UNIDO to access funds from bilateral sources;

"(f) Encourages Governments of recipient countries to play a more active role in sharing with UNIDO the responsibility to mobilize funds for jointly-identified high-priority products from sources available to them."




| *Fund group* | *1993* | *1994* | *1995* | *1996* | *1997* |
|---|---|---|---|---|---|
| Regular budget | 6 587 | 7 208 | 7 525 | 7 058 | 5 066 |
| UNDP | 22 049 | 21 735 | 12 883 | 18 304 | 21 970 |
| IDF/Montreal Protocol | 2 060 | 18 785 | 29 407 | 40 635 | 43 960 |
| IDF/other | 27 871 | 23 266 | 22 012 | 25 044 | 17 342 |
| Self-financed trust funds | 12 715 | 9 716 | 7 453 | 8 110 | 4 933 |
| Third-party and other trust funds | 8 929 | 12 499 | 10 867 | 18 682 | 12 809 |
| Total | 80 211 | 93 209 | 90 147 | 117 833 | 106 080 |

*Notes*: Other trust funds include CFC, UNDCP and others.
Funds related to UNIDO's extensive involvement in the establishment of the International Centre for Genetic Engineering, which became fully independent at the end of 1995, are excluded.

CFC Common Fund for Commodities
IDF Industrial Development Fund
UNDCP United Nations International Drug Control Programme